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8 BEFORE THE  
9 BOARD OF ACCOUNTANCY  
10 DEPARTMENT OF CONSUMER AFFAIRS  
11 STATE OF CALIFORNIA

12 In the Matter of the Accusation  
13 Against:

14 CHERYL LYNN MORTEN  
15 7612 Corona Court  
16 Fontana, California 92336

17 Certificate No, CPA 40866  
18 Respondent.

No. AC-96-27

DEFAULT DECISION  
AND ORDER

19 On November 12, 1996, Accusation Number AC-96-27 was filed by  
20 Complainant Carol B. Sigmann (hereinafter referred to as "Complainant") in her official  
21 capacity as Executive Officer of the Board of Accountancy (hereinafter referred to as "the  
22 Board"), Department of Consumer Affairs of the State of California against Cheryl Lynn  
23 Morten (hereinafter referred to as "the Respondent"), holder of Certificate Number 40866.

24 On November 22, 1996, the Accusation along with the Statement to  
25 Respondent, excerpts from California Government Code, sections 11507.5, 11507.6 and  
26 11507.7, a Request for Discovery, and a Notice of Defense (hereinafter referred to as "the  
27 Accusation Package") was served on Respondent by certified mail addressed to Respondent at  
7612 Corona Court, Fontana, California 92336.

1 Pursuant to California Code of Regulations, Title 16, Section 3, as a holder of  
2 a certificate from the Board, Respondent is required to notify the Board, in writing, of any  
3 change in his/her address within 30 days of such change. Respondent's current mailing  
4 address of record with the Board is 7612 Corona Court, Fontana, California 92336.

5 Respondent has been served with the Accusation Package in a manner  
6 authorized by California Government Code, section 11505 (c) and California Code of Civil  
7 Procedure, section 11. Respondent has failed to file a Notice of Defense as permitted by  
8 California Government Code, section 11506 (a), and has otherwise failed to request a hearing,  
9 object or otherwise contest the Accusation. Respondent has waived her right to a hearing on  
10 the Accusation and is in default. Because of respondent's waiver, and pursuant to California  
11 Government Code, section 11520(a), the Board takes action on the Accusation without a  
12 hearing based upon the Accusation and documentary evidence on file, and makes the  
13 following findings of fact and determination of issues.

#### 14 FINDINGS OF FACT

15 1. Complainant, Carol B. Sigmann, the Executive Officer of the Board of  
16 Accountancy, made and filed Accusation No. AC-96-27 in the above-entitled matter solely in  
17 her official capacity.

18 2. On or about August 3, 1984, respondent was issued Certificate Number  
19 40866 by the Board. Said certificate expired on August 1, 1990, and was in a delinquent  
20 status and was not valid from August 1, 1990, through July 31, 1995. On July 31, 1995,  
21 said certificate was renewed for the period August 1, 1990, through July 31, 1992. As of  
22 February 7, 1996, said certificate remains in a delinquent status.

23 3. Respondent performed audits of the financial statements of Southland  
24 Community Services for the fiscal years ending June 30, 1991, June 30, 1992, and June 30,  
25 1993 (hereinafter "audit reports"). The audit reports prepared by respondent exhibit the  
26 same deficiencies and departures from applicable professional standards as follows:

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1           a.     Respondent issued audit reports which each omit a statement that an  
2 audit includes examining, on a test basis, evidence supporting the amounts and disclosures in  
3 the financial statements, and assessing the accounting principles used and significant  
4 estimates made by management.

5           b.     Respondent issued audit reports which each omit an opinion covering  
6 the client's cash flows for the year.

7           c.     Respondent issued audit reports which each omit specific identification  
8 of each financial statement in the introductory paragraph of the report.

9           4.     The statements of cash flows presented with the Respondent's audit  
10 reports exhibit gross departures from professional standards in both format and disclosures.  
11 The statements of cash flows do not provide a reconciliation of net income to net cash flows  
12 from operating activities.

13           5.     Respondent prepared audit reports that failed to describe uncertainty  
14 about Southland Community Services' ability to continue as a going concern.

15           a.     Respondent issued an unqualified opinion for the fiscal year ending  
16 June 30, 1993, which failed to include relevant factors pertaining to the decline in Southland  
17 Community Services' financial condition from 1990 through 1993.

18           b.     Respondent failed to evaluate whether there was substantial doubt about  
19 Southland Community Services' ability to continue as a going concern for a reasonable  
20 period of time, not to exceed one year, beyond the date of the financial statements being  
21 audited.

22           c.     Respondent failed to include an explanatory paragraph in the audit  
23 reports reflecting the conclusion that there is substantial doubt about Southland Community  
24 Services' ability to continue as a going concern.

25           6.     Respondent's license expired on August 1, 1990.  
26 Respondent prepared audit reports dated February 22, 1992, December 22, 1992, and  
27 November 1, 1993, for the fiscal years ending June 30, 1991, June 30, 1992 and June 30,

1 1993, respectively. The audit reports were prepared when Respondent's license was in an  
2 expired status.

3 7. Respondent prepared audit reports dated December 22, 1992, and  
4 November 1, 1993, on letterhead bearing the name "C. L. Morten and Associates, Certified  
5 Public Accountants". This fictitious name has not been approved by the Board in any form.  
6 Further, as a sole practitioner, Respondent is not entitled to utilize the plural term  
7 "accountants" as part of her firm's name.

8 8. Respondent represented to the Board in a letter dated September 15,  
9 1989, that she was "not operating under the name "C.L. Morten and Associates," and that  
10 "all publication[s] sent to me have been read and corrective actions taken."

11 9. Despite Respondent's representations to the Board, the letterhead of  
12 Respondent's audit reports thereafter dated November 22, 1992, and December 1, 1993, bear  
13 the name "C. L. Morten and Associates, Certified Public Accountants". This fictitious name  
14 has not been approved by the Board in any form. Further, as a sole practitioner, Respondent  
15 is not entitled to utilize the plural term "accountants" as part of her firm's name.

16 10. Respondent's address of record with the Board, as of March 24, 1989,  
17 was 2728 Bearcreek, Ontario, California. This address appears on Respondent's audit report  
18 for Southland Community Services for the fiscal year ending June 30, 1991.

19 a. Respondent's audit report for Southland Community Services for the  
20 fiscal year ending June 30, 1992, bears the address 10565 Civic Center Drive, Rancho  
21 Cucamonga, California.

22 b. Respondent's audit report for Southland Community Services for the  
23 fiscal year ending June 30, 1993, bears the address 3856 West Martin Luther King  
24 Boulevard, Los Angeles, California.

25 c. Respondent was located during the investigation of the facts supporting  
26 this Accusation at the address 13540 Dana Court, Fontana, California.

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1 d. Respondent advised the Board's investigator that her current address is  
2 7612 Corona Court, Fontana, California, as of January 20, 1995.

3 11. Respondent failed to notify the Board of her address changes since she  
4 last renewed her license after completing the August 1, 1986 though July 31, 1988 licensing  
5 period.

#### 6 DETERMINATION OF ISSUES

7 1. Because of the above findings of fact, cause for disciplinary action against  
8 respondent exists for violating provisions of the Board and the rules and regulations adopted  
9 by the Board.

10 2. Cause for discipline exists pursuant to California Business and Professions  
11 Code, section 5100(c) for gross negligence in failing to comply with the Codification of  
12 Statements on Auditing Standards promulgated by the American Institute of Certified Public  
13 Accountants (hereinafter referred to as "AU § \_\_\_\_"). AU § 508.06 requires specific  
14 identification of each financial statement in the introductory paragraph of the auditor's report.  
15 AU § 508.08 requires that the report include specific language regarding what an audit  
16 entails, and an opinion that encompasses the entity's cash flows. Cause for discipline exists  
17 for each item set forth in Findings of Fact No. 3, for each of the audit reports prepared by  
18 respondent for the fiscal years ending June 30, 1991, June 30, 1992, and June 30, 1993.

19 3. Cause for discipline exists pursuant to California Business and  
20 Professions Code Section 5100(c) for gross negligence in failing to comply with the  
21 Statements of Financial Accounting Standards ["SFAS"] promulgated by the Financial  
22 Accounting Standards Board. SFAS Number 95, paragraphs 14 through 24, require that a  
23 statement of cash flows classify cash receipts and cash payments by "investing," "financing,"  
24 or "operating" activities. Cause for discipline exists for the conduct set forth in Findings of  
25 Fact No. 4, for each of the audit reports prepared by Respondent for the fiscal years ending  
26 June 30, 1991, June 30, 1992, and June 30, 1993.

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1                   4.     Cause for discipline exists pursuant to California Business and  
2 Professions Code Section 5100(c) for gross negligence in failing to comply with the  
3 Codification of Statements on Auditing Standards ["SAS"] promulgated by the American  
4 Institute of Certified Public Accountants. SAS No. 59 and AU § 341.02 provide that the  
5 auditor has a responsibility to evaluate whether there is substantial doubt about an entity's  
6 ability to continue as a going concern for a reasonable period of time, not to exceed one year  
7 beyond the date of the financial statements being audited. AU § 341.12 further provides that  
8 the audit report must include an explanatory paragraph, if, after considering all relevant  
9 factors, the auditor concludes that there is substantial doubt about an entity's ability to  
10 continue as a going concern. Cause for discipline exists for each item set forth in Findings  
11 of Fact No. 5, for the audit report prepared by Respondent for the fiscal year ending June  
12 30, 1993.

13                   5.     Cause for discipline exists pursuant to California Business and  
14 Professions Code Section 5050 for engaging in the practice of public accountancy, as  
15 described in Section 5051, in this State without a valid permit issued by the Board, by reason  
16 of Findings of Fact No. 6.

17                   6.     Cause for discipline exists pursuant to Regulation Section 67, for  
18 practicing under a name other than her own until such name has been registered with and  
19 approved by the Board, by reason of Findings of Fact No. 7.

20                   7.     Cause for discipline exists pursuant to Regulation Section 66, for using  
21 a plural designation in her firm's name when she is a sole practitioner, by reason of Findings  
22 of Fact No. 8.

23                   8.     Cause for discipline exists pursuant to California Business and  
24 Professions Code Section 5100(f) since Respondent willfully violated a rule or regulation  
25 promulgated by the Board requiring the Board to approve all fictitious names and preventing  
26 Respondent from using plural nomination, by reason of Findings of Fact Nos. 8 and 9.

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1                   9. Cause for discipline exists pursuant to the mandatory provisions of  
2 Regulation Section 3 which require permit holders to notify the Board of address and  
3 business connections and changes in writing, by reason of Findings of Fact Nos. 10 and 11.

4                                   DISCIPLINARY ORDER

5                   WHEREFORE, IT IS ORDERED:

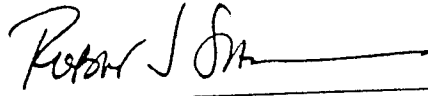
6                   Certificate Number 40866 issued to Cheryl Lynn Morten is hereby revoked.

7                   Respondent shall not be deprived of making any showing by way of  
8 mitigation; however, such showing shall be made to the Board prior to the effective date of  
9 this Default Decision.

10                   This Default Decision shall become effective on the

11                   2nd day of MAY 1997.

12                   DATED: APRIL 2, 1997

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17                   Board of Accountancy  
18                   Department of Consumer Affairs  
19                   State of California  
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6  
7 BEFORE THE  
BOARD OF ACCOUNTANCY  
8 DEPARTMENT OF CONSUMER AFFAIRS  
STATE OF CALIFORNIA  
9

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11 In the matter of the Accusation	)	No. AC-96-27
Against:	)	
12 CHERYL LYNN MORTEN	)	ACCUSATION
13 7612 Corona Court	)	
Fontana, California 92336	)	
14 Certificate No. CPA 40866	)	
15 Respondent.	)	
16	)	

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18 Complainant, Carol B. Sigmann, as cause for disciplinary  
19 action, alleges:

20 1. Complainant Carol B. Sigmann ("Complainant") is the  
21 executive Officer of the California Board of Accountancy  
22 ("Board") and makes and files the Accusation solely in her  
23 official capacity.

24 LICENSE STATUS

25 2. On or about August 3, 1984, Certificate Number 40866  
26 was issued by the Board to Cheryl Lynn Morten ("Respondent").  
27 Said certificate expired on August 1, 1990, and was in a  
28 delinquent status and was not valid from August 1, 1990 through



1 July 31, 1995. On July 31, 1995, said certificate was renewed  
2 for the period August 1, 1990 through July 31, 1992. As of  
3 February 7, 1996, said certificate remains in a delinquent  
4 status.

5 STATUTES

6 3. This Accusation is made in reference to the following  
7 sections of the California Business and Professions Code.

8 a. Section 5100 provides that the Board may revoke,  
9 suspend or refuse to renew any permit or certificate  
10 issued by the Board, or may censure the holder of any  
11 such permit or certificate for unprofessional conduct  
12 which includes, but is not limited to, one or any  
13 combination of the following:

14 (c) Dishonesty, fraud, or gross negligence  
15 in the practice of public accountancy.

16 (f) Willful violation of this chapter or any  
17 rule or regulation promulgated by the Board  
18 under the authority granted under this  
19 chapter.

20 b. Section 5050 provides that no person shall engage  
21 in the practice of public accountancy in this State  
22 without a valid permit to practice issued by the Board.

23 REGULATIONS

24 4. This Accusation is made in reference to the following  
25 regulations of the California Code of Regulations, Title 16  
26 ("Regulation"):

27 a. Section 67 prohibits a licensee from practicing  
28 under a name other than her own until such name has

1        been registered with and approved by the Board.

2        b.     Section 66 provides that a licensee shall not use  
3        a firm name which includes plural terms such as "and  
4        Associates," unless she maintains a full-time  
5        professional staff consisting of a licensee or an  
6        employee or assistant as described in Section 5053 of  
7        the Accountancy Act. An individual practitioner shall  
8        not use the plural designation "Certified Public  
9        Accountants".

10       c.     Section 3 provides that it is mandatory for every  
11       permit holder to file, in writing, with the Board at  
12       the time of payment of her renewal fee, her address and  
13       business connections and to notify the Board, in  
14       writing, within 30 days of any change thereof occurring  
15       during the renewal period.

16        AUDIT REPORTS OF FINANCIAL STATEMENTS OF SOUTHLAND  
17        COMMUNITY SERVICES FOR THE FISCAL YEARS ENDING  
18        JUNE 30, 1991, JUNE 30, 1992 AND JUNE 30, 1993

19        5.     Respondent performed audits of the financial statements  
20        of Southland Community Services for the fiscal years ending June  
21        30, 1991, June 30, 1992, and June 30, 1993 (hereinafter "audit  
22        reports"). The audit reports prepared by respondent exhibit the  
23        same deficiencies and departures from applicable professional  
24        standards as follows:

25        a.     Respondent issued audit reports which each omit a  
26        statement that an audit includes examining, on a test basis,  
27        evidence supporting the amounts and disclosures in the financial  
28        statements, and assessing the accounting principles used and  
      significant estimates made by management.

1       b.   Respondent issued audit reports which each omit an  
2 opinion covering the client's cash flows for the year.

3       c.   Respondent issued audit reports which each omit  
4 specific identification of each financial statement in the  
5 introductory paragraph of the report.

6       6.   As a result of the conduct described in paragraph 5,  
7 Respondent is subject to discipline under California Business and  
8 Professions Code Section 5100(c) for gross negligence in failing  
9 to comply with the Codification of Statements on Auditing  
10 Standards promulgated by the American Institute of Certified  
11 Public Accountants (hereinafter referred to as "AU § \_\_\_\_").  
12 AU § 508.06 requires specific identification of each financial  
13 statement in the introductory paragraph of the auditor's report.  
14 AU § 508.08 requires that the report include specific language  
15 regarding what an audit entails, and an opinion that encompasses  
16 the entity's cash flows. Respondent is subject to discipline for  
17 each item set forth in paragraph 5, for each of the audit reports  
18 prepared by respondent for the fiscal years ending June 30, 1991,  
19 June 30, 1992, and June 30, 1993.

20       7.   The statements of cash flows presented with the  
21 Respondent's audit reports exhibit gross departures from  
22 professional standards in both format and disclosures. The  
23 statements of cash flows do not provide a reconciliation of net  
24 income to net cash flows from operating activities.

25       8.   As a result of the conduct described in paragraph 7,  
26 Respondent is subject to discipline under California Business and  
27 Professions Code Section 5100(c) for gross negligence in failing  
28 to comply with the Statements of Financial Accounting Standards

1 ["SFAS"] promulgated by the Financial Accounting Standards Board.  
2 SFAS Number 95, paragraphs 14 through 24, require that a  
3 statement of cash flows classify cash receipts and cash payments  
4 by "investing," "financing," or "operating" activities.  
5 Respondent is subject to discipline for the conduct set forth in  
6 paragraph 7, for each of the audit reports prepared by Respondent  
7 for the fiscal years ending June 30, 1991, June 30, 1992, and  
8 June 30, 1993.

9 9. Respondent prepared audit reports that failed to  
10 describe uncertainty about Southland Community Services' ability  
11 to continue as a going concern.

12 a. Respondent issued an unqualified opinion for the fiscal  
13 year ending June 30, 1993, which failed to include relevant  
14 factors pertaining to the decline in Southland Community  
15 Services' financial condition from 1990 through 1993.

16 b. Respondent failed to evaluate whether there was  
17 substantial doubt about Southland Community Services' ability to  
18 continue as a going concern for a reasonable period of time, not  
19 to exceed one year, beyond the date of the financial statements  
20 being audited.

21 c. Respondent failed to include an explanatory paragraph  
22 in the audit reports reflecting the conclusion that there is  
23 substantial doubt about Southland Community Services' ability to  
24 continue as a going concern.

25 10. As a result of the conduct described in paragraph 9,  
26 Respondent is subject to discipline under California Business and  
27 Professions Code Section 5100(c) for gross negligence in failing  
28 to comply with the Codification of Statements on Auditing

1 Standards ["SAS"] promulgated by the American Institute of  
2 Certified Public Accountants. SAS No. 59 and AU § 341.02 provide  
3 that the auditor has a responsibility to evaluate whether there  
4 is substantial doubt about an entity's ability to continue as a  
5 going concern for a reasonable period of time, not to exceed one  
6 year beyond the date of the financial statements being audited.  
7 AU § 341.12 further provides that the audit report must include  
8 an explanatory paragraph, if, after considering all relevant  
9 factors, the auditor concludes that there is substantial doubt  
10 about an entity's ability to continue as a going concern.  
11 Respondent is subject to discipline for each item set forth in  
12 paragraph 9, for the audit report prepared by Respondent for the  
13 fiscal year ending June 30, 1993.

14 PRACTICING WITHOUT A LICENSE

15 11. Respondent's license expired on August 1, 1990.  
16 Respondent prepared audit reports dated February 22, 1992,  
17 December 22, 1992, and November 1, 1993, for the fiscal years  
18 ending June 30, 1991, June 30, 1992 and June 30, 1993,  
19 respectively. The audit reports were prepared when Respondent's  
20 license was in an expired status.

21 12. As a result of the conduct described in paragraph 11,  
22 Respondent is subject to discipline under California Business and  
23 Professions Code Section 5050 for engaging in the practice of  
24 public accountancy, as described in Section 5051, in this State  
25 without a valid permit issued by the Board.

26 USING AN UNAPPROVED FICTITIOUS NAME

27 13. Respondent prepared audit reports dated December 22,  
28 1992, and November 1, 1993, on letterhead bearing the name "C. L.

1 Morten and Associates, Certified Public Accountants". This  
2 fictitious name has not been approved by the Board in any form.  
3 Further, as a sole practitioner, Respondent is not entitled to  
4 utilize the plural term "accountants" as part of her firm's name.

5 14. As a result of the conduct described in paragraph 13,  
6 Respondent is subject to discipline under Regulation Section 67,  
7 for practicing under a name other than her own until such name  
8 has been registered with and approved by the Board.

9 15. As a result of the conduct described in paragraph 13,  
10 Respondent is subject to discipline under Regulation Section 66,  
11 for using a plural designation in her firm's name when she is a  
12 sole practitioner.

13 WILFUL VIOLATION OF BOARD RULES

14 16. Respondent represented to the Board in a letter dated  
15 September 15, 1989, that she was "not operating under the name  
16 "C.L. Morten and Associates," and that "all publication[s] sent  
17 to me have been read and corrective actions taken."

18 17. Despite Respondent's representations to the Board, the  
19 letterhead of Respondent's audit reports thereafter dated  
20 November 22, 1992, and December 1, 1993, bear the name "C. L.  
21 Morten and Associates, Certified Public Accountants". This  
22 fictitious name has not been approved by the Board in any form.  
23 Further, as a sole practitioner, Respondent is not entitled to  
24 utilize the plural term "accountants" as part of her firm's name.

25 18. As a result of the conduct described in paragraphs 16  
26 and 17, Respondent is subject to discipline under California  
27 Business and Professions Code Section 5100(f) since Respondent  
28 willfully violated a rule or regulation promulgated by the Board

1 requiring the Board to approve all fictitious names and  
2 preventing Respondent from using plural nomination.

3 FAILURE TO NOTIFY BOARD OF CHANGE OF ADDRESS

4 19. Respondent's address of record with the Board is 2728  
5 Bearcreek, Ontario, California. This address appears on  
6 Respondent's audit report for Southland Community Services for  
7 the fiscal year ending June 30, 1991.

8 a. Respondent's audit report for Southland Community  
9 Services for the fiscal year ending June 30, 1992, bears the  
10 address 10565 Civic Center Drive, Rancho Cucamonga, California.

11 b. Respondent's audit report for Southland Community  
12 Services for the fiscal year ending June 30, 1993, bears the  
13 address 3856 West Martin Luther King Boulevard, Los Angeles,  
14 California.

15 c. Respondent was located during the investigation of the  
16 facts supporting this Accusation at the address 13540 Dana Court,  
17 Fontana, California.

18 d. Respondent advised the Board's investigator that her  
19 current address is 7612 Corona Court, Fontana, California, as of  
20 January 20, 1995.

21 20. Respondent failed to notify the Board of her address  
22 changes since she last renewed her license after completing the  
23 August 1, 1986 though July 31, 1988 licensing period.

24 21. As a result of the conduct described in paragraphs 19  
25 and 20, Respondent is subject to discipline under the mandatory  
26 provisions of Regulation Section 3 which require permit holders  
27 to notify the Board of address and business connections and  
28 changes in writing.

WHEREFORE, Complainant requests a hearing be held on the matters alleged herein, and that following said hearing, a decision be issued:

1. Revoking or suspending Certificate number 40866 heretofore issued to Respondent Cheryl Lynn Morten;

2. Directing Respondent Cheryl Lynn Morten to pay to the Board a reasonable sum for its investigation and enforcement costs of this action, including attorney's fees; and

3. Taking such other and further action as the Board deems proper.

DATED: November 12, 1996

*Carol B. Symann*  
CAROL B. SIGMANN  
Executive Officer  
Board of Accountancy  
Department of Consumer Affairs  
State of California